

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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TO SECSTATE WASHDC 6569
INFO AMCONSUL ALEXANDRIA

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TAGS: ECON, PINT, EG
SUBJ: PROPOSED WAGE INCREASES - PRIVATE SECTOR NOT
- FORGOTTEN

REF: (A) CAIRO 6893, (B) CAIRO 6493

1. SUMMARY. PROPOSALS FOR INCREASES IN PUBLIC SECTOR/
CIVIL SERVICE WAGES HAVE BEEN EXTENDED TO COVER PRIVATE
SECTOR WORK FORCE. PRIVATE SECTOR IMPORTANT BECAUSE
NUMERICALLY IT ACCOUNTS FOR 50 PER CENT OF ALL NON-FARM
LABOR. WE BELIEVE GOE'S MOVE TO RAISE WAGES IS ONE STEP
IN LONG NEEDED RESTRUCTURING OF ECONOMY. SOME ECONOMIC
OBSERVERS, HOWEVER, ARE PREDICTING FURTHER INFLATION
(WHICH ALREADY RUNNING AT 20 PER CENT PER YEAR) AS RESULT
WAGE INCREASES AND FEAR POLITICAL CONSEQUENCES, ESPECIALLY
IN LIGHT OF APPARENT SLOWDOWN IN PEACE PROCESS. END
SUMMARY.

2. CABINET DEBATE, AND SUBSEQUENT APPROVAL, OF LONG
OVERDUE WAGE INCREASES HAVE BEEN FRONT PAGE NEWS IN EGYPT
FOR PAST WEEK. AS DESCRIBED REFTELS, COMPREHENSIVE
INCREASES AND NEW INCENTIVE PROMOTION SYSTEM FOR CIVIL
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SERVICE AND PUBLIC SECTOR EMPLOYEES WERE FORWARDED BY
CABINET TO PEOPLES ASSEMBLY ON MARCH 2. THESE PLANS
CALL FOR INCREASE IN GOE WAGE BILL OF LE 180 MILLION, OR
ABOUT 10 PER CENT OVER 1978 BUDGETED TOTAL. ACTUAL IN-
CREASES WILL RANGE FROM 33 PER CENT IN LOWER GRADES TO TEN
PER CENT IN UPPER GRADES.

3. AL AHRAH AND AL GUMHURIYAA CONTINUE FRONT PAGE COVERAGE OF WAGE BENEFITS MARCH 6 AND 7 WITH DETAILED ACCOUNTS OF MINISTER OF MANPOWER'S RECOMMENDATION TO CABINET THAT INCREASE IN WAGES FOR PRIVATE SECTOR BE APPROVED FORTHWITH. ACCORDING REPORTS, CABINET BEING ASKED TO CONSIDER SENDING TO PA BILL WHICH WOULD MAKE INCREASES RETROACTIVE TO BEGINNING OF 1978. EGYPTIAN FEDERATION OF LABOR HAS PROPOSED ACROSS-THE-BOARD 15 PER CENT INCREASE, MINISTRY OF MANPOWER SUGGESTED 12.5 PER CENT AND EGYPTIAN FEDERATION OF INDUSTRIES (EMPLOYERS), SEVEN PER CENT. MINISTER OF MANPOWER REPORTS THAT ALL CONCERNED AGREE THAT PRIVATE SECTOR WAGES MUST BE INCREASED; ONLY QUESTION IS HOW MUCH.

4. MINISTRY OF MANPOWER PROPOSALS INCLUDE ADDITIONAL BENEFITS AND PROTECTIVE MEASURES FOR PRIVATE SECTOR WORKERS. ALL ESTABLISHMENTS OF FIVE OR MORE EMPLOYEES WILL HAVE TO ABIDE BY STANDARDS FOR LEAVE, DISPUTE SETTLEMENT AND ANNUAL IN STEP INCREASES. SUCH STANDARDS ARE CURRENTLY MANDATORY ONLY FOR PUBLIC SECTOR. PROVISIONS WOULD ESTABLISH NATIONWIDE PUBLIC AND PRIVATE SECTOR LABOR NORMS FOR FIRST TIME.

5. COMMENT: PUBLIC SECTOR/CIVIL SERVICE EMPLOYMENT ACCOUNTS FOR ABOUT ONE-HALF OF TOTAL NON-AGRICULTURAL WORK FORCE BUT RECEIVES ABOUT 70 PER CENT OF WAGES PAID LIMITED OFFICIAL USE

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TO NON-FARM LABOR. WAGES HAVE RISEN SINCE 1974, ALTHOUGH REAL INCOME HAS NOT KEPT PACE WITH ACTUAL INCREASES DUE TO CONTINUING CONSUMER PRICE INFLATION. BECAUSE GOVERNMENT HAS CONTROLLED PRICES OF MANY "BASIC" COMMODITIES THE GENERALLY RECOGNIZED AVERAGE 20 PER CENT PER ANNUM INFLATION HAS AFFECTED MAINLY THOSE GOODS WHICH HAVE NO CONTROLS AND WHICH ARE CONSUMED MAINLY BY THE NASCENT MIDDLE CLASS. PRIVATE SECTOR, WITH EQUAL PORTION OF WORK FORCE, LAGS CONSIDERABLY BEHIND PUBLIC SECTOR. PRIVATE SECTOR IS SUBJECT TO MINIMUM WAGE REQUIREMENT (WHICH CURRENTLY SET AT LE 12 PER MONTH) BUT WAGES ARE ON THE WHOLE LOWER THAN PUBLIC SECTOR. THIS IS BECAUSE OF FACT THAT MINIMUM WAGE ENFORCED ONLY FOUR YEARS AGO BY GOE AND BECAUSE OF LACK OF AUTOMATIC STEP INCREASES AND SENIORITY BENEFITS, ESPECIALLY ON LOWER END OF SKILLS LADDER.

6. ECONOMIC DIAGNOSTICIANS USUALLY CITE NEED FOR WAGE INCREASES AS ONE OF BASIC PROBLEMS FACING EGYPTIAN ECONOMY. IF WAGES RISE, ARGUMENT GOES, THEN GOVERNMENT SUBSIDIES AND PRICE CONTROLS COULD BE REDUCED OR ELIMINATED. THUS FAR THE GOE HAS BEEN RELUCTANT TO INCREASE

WAGES OR REDUCE SUBSIDIES OR PRICE CONTROLS, ESPECIALLY
IN AREAS AFFECTING LOWER END OF INCOME SCALE. MOST
ECONOMIC OBSERVERS FEAR THAT FIRST SIGNIFICANT ACROSS
THE-BOARD WAGE INCREASES IN MANY YEARS WILL TOUCH OFF
FURTHER DEMAND PUSH INFLATION, ESPECIALLY IN LOWER
INCOME GROUPS. THIS, THEY POINTOUT, WILL COME JUST AT
TIME WHEN NEW GOE POLICY OF DECONTROLLING PRICES OF MANY
INDUSTRIAL PRODUCTS (REFRIGERATORS, WASHING MACHINES, AIR
CONDITIONERS AND TV SETS HAVE ALREADY RISEN 25 PER CENT)
WILL MEAN EVEN FURTHER EROSION OF REAL INCOME. MITIGAT-
ING FACTOR IS INCREASE PERCENTAGES ARE LESS THAN CURRENT
INFLATION RATE AND SO IT COULD BE ARGUED THAT THEY WILL
BE ABSORBED MEETING RISING COST OF LIVING. UNKNOWN IS
WHETHER INCREMENTAL INCOME MIGHT BE CHanneLED INTO AREAS
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WHICH WOULD CREATE INFLATION. IN ATTEMPT TO OFFSET SUCH :
FEARS, GOVERNMENT CONTINUES TO ASSURE PUBLICLY THAT
SPECIAL ADVANTAGES (E.G., HEAVILY SUBSIDIZED CLOTHING)
WILL BE OFFERED TO THOSE AT LOWER END OF INCOME SCALE.
SOME OF THESE OBSERVERS ARE BEGINNING TO ASK, HOWEVER,
IF GOE REALLY HAS GOOD PICTURE WHERE DOMESTIC PRICES ARE
HEADED AND ARE CLEARLY WORRIED ABOUT INTERNAL POLITICAL
CONSEQUENCES, ESPECIALLY IF PEACE PROCESS CONTINUES

SLOW PACE.

7. GOE APPEARS BE COMMITTED TO GOING AHEAD WITH WAGE INCREASES AND THEREFORE PREPARED TO TAKE OBVIOUS RISK OF INFLATIONARY SPIRAL. IT CANNOT BE DENIED THAT LONG TIME HAS PASSED SINCE EGYPT FELT EFFECTS OF INCREASED COSTS ASSOCIATED WITH WAGE INCREASES AND ONLY TIME WILL TELL IF PESSIMISTS ARE CORRECT IN PREDICTING PRICE RISES. SO LONG AS THIS IS ACCOMPANIED BY APPROPRIATE DEGREE OF PRICE INCREASES (SEE CAIRO 6738 FOR COMMENT GOE THINKING ON THIS SUBJECT) IT WOULD APPEAR THAT POLICY WHICH GOE HAS VERY TENTATIVELY EMBARKED UPON IS RATIONAL AND LIKELY TO LEAD IN LONGER TERM TO NEEDED RESTRUCTURING OF ECONOMY.

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